

# Updated Revenue Trend

Legislative Finance Committee  
December 2015



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## New Data

- ▶ FY 2015 revenue collections
- ▶ New individual and corporate tax return data, and property valuation data
- ▶ New oil and natural gas production data
- ▶ Updated metal price forecasts
- ▶ Updated IHS forecasts



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## Key Legislative Impacts

- ▶ HB 411: Oil production tax triggers
  - Changed trigger price for stripper wells from \$38 to \$54
  - Trigger price reached in FY 2016 Q1
  - Likely continues for FY 2016 Q2
  - General fund revenue impact of about \$0.4 million per quarter
- ▶ SB 157: Property tax reappraisal
  - 2-year reappraisal for Class 3 & 4
  - Tax rate: Class 3 Agricultural 2.47% → 2.16%
  - Tax rate: Class 4 Residential 2.47% → 1.35%
  - Tax rate: Class 4 Commercial 2.47% → 1.35% X 1.4



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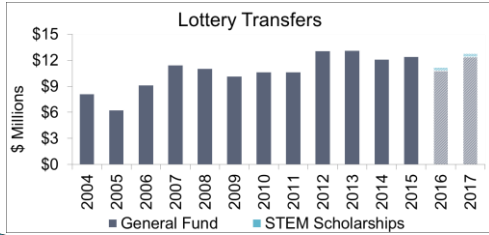
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### Legislative Impacts, cont'd.

- ▶ HB 617: STEM scholarships via lottery revenue




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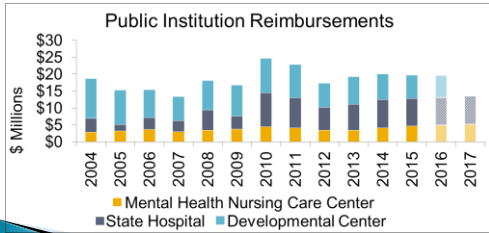
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### Legislative Impacts, cont'd.

- ▶ SB 411: Closure of Montana Developmental Center




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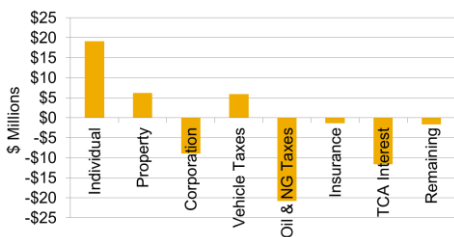
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### In Sum, Updated Trend Consistent with HJ 2

- ▶ Updated trend \$13.2 million or 0.3% below HJ 2




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# Individual Income Tax



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## FY 2015: Actual Collections vs. HJ 2

- ▶ \$33.3 million difference between actual FY 2015 collections and the HJ 2 estimate
- ▶ Difference #1: income growth rates, driven by capital gains
- ▶ Difference #2: fiscal year conversion process, driven by taxpayer behavior



Source: SABHRS (unaudited) & CY 2014 return data

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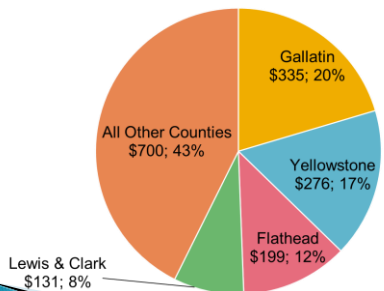
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## Individual Income Tax: CY 2014 Increase of \$1,641 Million Led by Gallatin County



Source: CY 2014 return data

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### Difference #1: Capital Gains Grow 44%



Source: CY 2014 return data

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### Capital Gains Growth: Taxpayer Behavior?

- ▶ Much stronger than stock market growth of 18%; implies increased taxpayer realization of gains
- ▶ April surprise: Most states had one
- ▶ Research California report in capital gains




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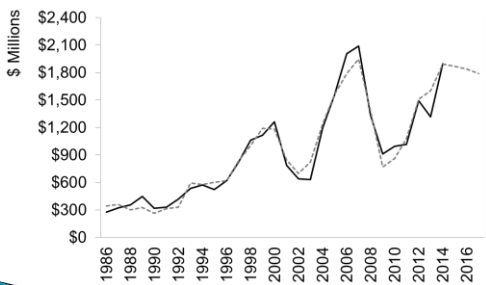
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### Capital Gains Income: Historically Volatile



Source: historical tax return data & current modeling

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### Updated Trend Grows from CY 2014 Base

- ▶ True for all income types
- ▶ May assume risk for capital gains




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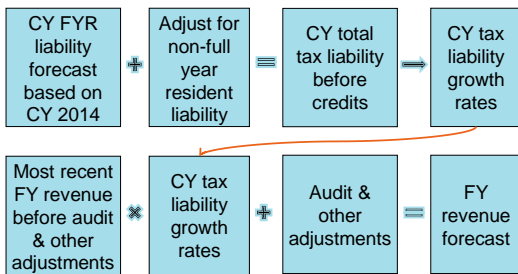
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### Difference #2: Conversion Process




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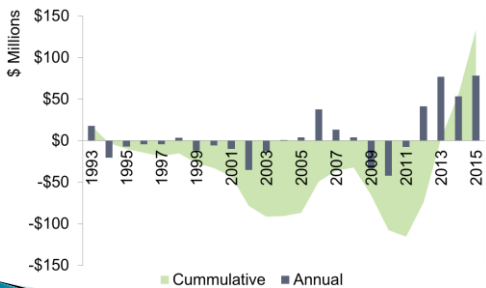
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### FY Revenue Before Audits Has Tracked Prior CY Total Tax Liability Before Credits...



...Until Recently

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## Updated Trend Grows from FY 2015 Base

- ▶ May assume risk if FY 2015 was unusually high




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## Cash Flow Analysis: A New Approach

### Advantages

- ▶ Timely—includes most recent completed quarterly data
- ▶ Reflects current taxpayer behavior

### Cautions

- ▶ Assumes current taxpayer behavior will continue
- ▶ May change quickly in response to taxpayer adjustments

### Next Steps

- ▶ Statistical analysis of revenue risk
- ▶ Continue to work with other states using this method

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## Preliminary: Cash Flow ~ Updated Trend

FY	HJ 2 Estimate	Updated Trend (FY Base)	Cash Flow	Conversion Option (Historical Trend)
2015	\$1,142	\$1,176	\$1,176	\$1,176
2016	1,230	1,243	1,240	1,208
2017	1,307	1,314	1,313	1,279

- ▶ Cash flow model produces very similar results to traditional modeling in updated trend
- ▶ Both cash flow and updated trend models are above the historical trend



Source: SABHRS (FY 2015 unaudited) & current modeling

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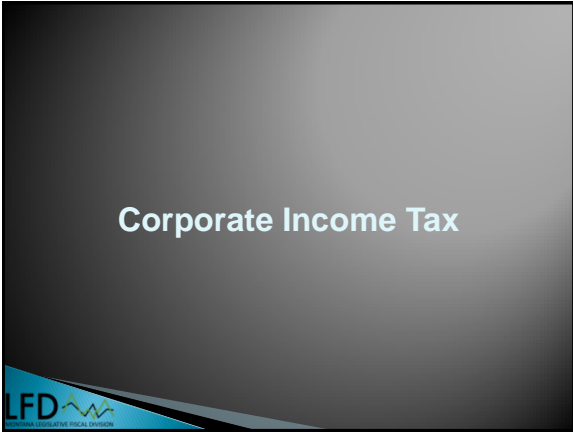
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**FY 2015: Actual Collections vs. HJ 2**

- ▶ Actual collections were \$18.5 million above HJ 2
- ▶ Assumed \$25 million taxpayer behavior shift in HJ 2 from FY 2015 to FY 2016 appears to have not materialized

Source: SABHRS (FY 2015 unaudited) & current modeling

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**CY 2013: Actual Liabilities Close to HJ 2**

- ▶ CY 2012 was used as the base year in the HJ 2 modeling process
- ▶ Actual CY 2013 collections were 1.1% above forecast CY 2013 collections
- ▶ Decreases in the mining and manufacturing sector were offset by increases in the information and transportation sectors

Source: CY 2013 return data

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# Oil & Natural Gas Taxes




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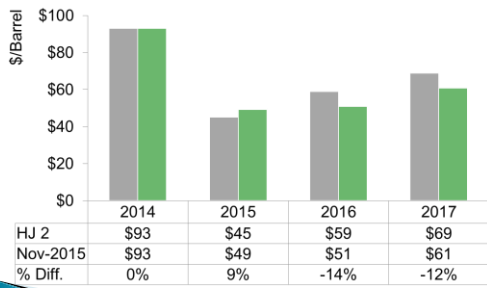
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## A Lower Outlook for Oil Prices...



Source: CY WTI forecast from IHS

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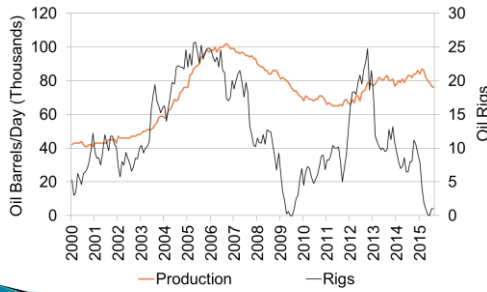
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## ...Combined with Reduced Production...



Source: Energy Information Administration / Baker Hughes

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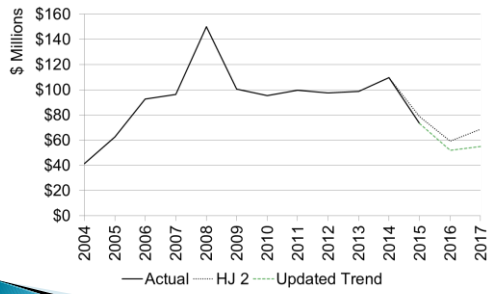
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### ...Leads to a Lower Forecast for Oil Taxes



Source: Current Modeling

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### Other Key Sources

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### Property Tax

- ▶ FY 2015 revenue was very close to HJ 2
- ▶ Updated trend includes reappraisal impacts
- ▶ Federal Secure Rural Schools Act reauthorized for FY 2016

Source: SABHRS (FY 2015 unaudited) & current modeling

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## Vehicle Taxes & Fees

- ▶ FY 2015 revenue was \$2.9 million above HJ 2
- ▶ Collections through October show 2.2% growth
- ▶ Updated trend is based on higher FY 2015 collections and October year-to-date information
- ▶ Revised modeling based on detailed registration data may capture consumer behavior shifts



Source: SABHRS (FY 2015 unaudited) & current modeling

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## Insurance Tax

- ▶ FY 2015 revenue was \$1.1 million below HJ 2
- ▶ Year-to-date collections show 8.1% growth
- ▶ To watch going forward:
  - Tax status of providers participating on health exchange
  - Allowed premium increases on health exchange
  - Health insurance take-up rate



Source: SABHRS (FY 2015 unaudited) & current modeling

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## TCA Interest Earnings

- ▶ FY 2015 revenue was \$0.7 million above HJ 2
- ▶ The updated trend is based on the IHS forecast for short-term interest rates, which are expected to increase more slowly than anticipated in HJ 2
- ▶ If rate increase does not occur as currently expected, the revenue risk is approximately \$2 million in FY 2016.



Source: SABHRS (FY 2015 unaudited) & current modeling

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